

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Carsonville	County Sanilac County
Fiscal Year End February 28, 2007	Opinion Date August 28, 2007	Date Audit Report Submitted to State August 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

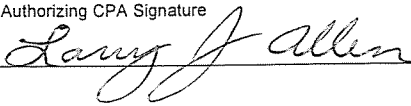
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>	Internal Control Letter	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829		
Street Address 1979 Holland Avenue		City Port Huron	State MI	Zip 48060
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

VILLAGE OF CARSONVILLE
Sanilac County, Michigan

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
FEBRUARY 28, 2007**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF CARSONVILLE
Sanilac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the President and
Members of the Village Council
Village of Carsonville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Village of Carsonville, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Carsonville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Carsonville, Michigan, as of February 28, 2007, and the respective changes in financial position and the cash flows of its proprietary fund type for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2007, on our consideration of the Village of Carsonville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The schedules of budgetary comparisons on pages 27 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Carsonville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statement.



Certified Public Accountants

August 28, 2007

BASIC FINANCIAL STATEMENTS

VILLAGE OF CARSONVILLE, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2007

	Primary Government		
	Governmental	Business Type	
	Activities	Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 70,888	\$ 18,394	\$ 89,282
Receivables	8,667	52,630	61,297
Prepaid expenses	20,810	3,878	24,688
Due from other governmental units	26,803	-	26,803
Internal balances	(440)	440	-
Restricted Assets -			
Cash and cash equivalents	-	234,375	234,375
Accounts receivable	-	27,215	27,215
Special assessments	-	1,093,953	1,093,953
Tap-in fees receivable	-	42,360	42,360
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	96,875	9,600	106,475
Assets being depreciated	894,889	4,412,049	5,306,938
Total Assets	<u>1,118,492</u>	<u>5,894,894</u>	<u>7,013,386</u>
LIABILITIES:			
Payables and accrued liabilities	35,041	4,821	39,862
Accrued expenses	2,476	28,479	30,955
Non-current liabilities -			
Due within one year	21,569	65,500	87,069
Due in more than one year	74,427	2,768,043	2,842,470
Total Liabilities	<u>133,513</u>	<u>2,866,843</u>	<u>3,000,356</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	895,768	2,753,617	3,649,385
Net Assets			
Restricted -			
Acquisition and construction of capital assets	20,327	-	20,327
Street maintenance and improvements	47,031	-	47,031
Debt Service	-	161,553	161,553
Unrestricted	21,853	112,881	134,734
Total Net Assets	<u>\$ 984,979</u>	<u>\$ 3,028,051</u>	<u>\$ 4,013,030</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED FEBRUARY 28, 2007

Functions/Programs	Expenses	Program Revenues		
		Fines, Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 68,582	\$ 7,141	\$ -	\$ -
Public Safety	124,162	9,672	630	98,189
Public Works	112,452	-	60,664	-
Interest on Long Term Debt	4,979	-	-	-
Total governmental activities	<u>310,175</u>	<u>16,813</u>	<u>61,294</u>	<u>98,189</u>
Business type activities:				
Water	88,831	130,179	-	-
Refuse Services	32,996	35,006	-	-
Sewage Collection System	89,651	35,208	-	-
Interest on Long Term Debt	92,623	-	-	-
Total business type activities	<u>304,101</u>	<u>200,393</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>614,276</u>	<u>217,206</u>	<u>61,294</u>	<u>98,189</u>

General revenues:

Taxes

Property taxes levied for general purposes

Property taxes levied for streets

Grants and contributions not
restricted to specific programs

Special assessments

Unrestricted investment income

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		
Governmental Activities	Business Type Activities	Total
\$(61,441)	\$ -	\$(61,441)
(15,671)	-	(15,671)
(51,788)	-	(51,788)
(4,979)	-	(4,979)
<u>(133,879)</u>	<u>-</u>	<u>(133,879)</u>
-	41,348	41,348
-	2,010	2,010
-	(54,443)	(54,443)
-	(92,623)	(92,623)
<u>-</u>	<u>(103,708)</u>	<u>(103,708)</u>
<u>(133,879)</u>	<u>(103,708)</u>	<u>(237,587)</u>
81,255	-	81,255
31,845	-	31,845
70,858	-	70,858
-	41,194	41,194
2,107	7,852	9,959
<u>186,065</u>	<u>49,046</u>	<u>235,111</u>
52,186	(54,662)	(2,476)
<u>932,793</u>	<u>3,082,713</u>	<u>4,015,506</u>
<u>\$ 984,979</u>	<u>\$ 3,028,051</u>	<u>\$ 4,013,030</u>

VILLAGE OF CARSONVILLE, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS FEBRUARY 28, 2007

	General	Major Street	Municipal Street	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash and cash equivalents	\$ 25,662	\$ 28,632	\$ 1,717	\$ 14,877	\$ 70,888
Receivables -					
Interest and accounts	6,110	-	2,557	-	8,667
Due from other governmental units -					
Federal/State	18,825	5,853	-	2,125	26,803
Due from other funds	-	12,221	9,208	4,153	25,582
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 50,597</u>	<u>\$ 46,706</u>	<u>\$ 13,482</u>	<u>\$ 21,155</u>	<u>\$ 131,940</u>
Liabilities:					
Accounts payable	\$ 28,638	\$ 13	\$ 1,001	\$ 75	\$ 29,727
Accrued liabilities	4,639	425	250	-	5,314
Due to other funds	13,801	-	12,221	-	26,022
Deferred revenue	462	-	-	-	462
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>47,540</u>	<u>438</u>	<u>13,472</u>	<u>75</u>	<u>61,525</u>
Fund Balances:					
Unreserved -					
Undesignated -					
General Fund	3,057	-	-	-	3,057
Special Revenue Funds	-	46,268	10	21,080	67,358
Total Equity	<u>3,057</u>	<u>46,268</u>	<u>10</u>	<u>21,080</u>	<u>70,415</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Equity	<u>\$ 50,597</u>	<u>\$ 46,706</u>	<u>\$ 13,482</u>	<u>\$ 21,155</u>	<u>\$ 131,940</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
FEBRUARY 28, 2007**

Fund Balances - total governmental funds	\$ 70,415
Amounts reported for governmental activities in the statement of net assets are different because:	
Prepaid expenses recorded in the funds on the purchase method	20,810
Long term assets that are not available to pay for current period expenditures, and therefore are deferred in the funds.	462
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	1,439,984
Accumulated depreciation	(448,220)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds/notes payable	(95,996)
Accrued interest	(2,476)
Net Assets of governmental activities	<u>\$ 984,979</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CARSONVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2007

	General	Major Street	Municipal Street	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 81,255	\$ -	\$ 31,845	\$ -	\$ 113,100
Licenses and permits	1,532	-	-	-	1,532
Intergovernmental -					
Federal/State	145,677	34,931	-	11,782	192,390
Local	-	-	13,951	24,000	37,951
Charges for services	30,864	-	-	-	30,864
Interest and rent	19,480	241	514	559	20,794
Other	971	-	-	-	971
Total Revenues	<u>279,779</u>	<u>35,172</u>	<u>46,310</u>	<u>36,341</u>	<u>397,602</u>
Expenditures:					
Current -					
General Government	78,241	-	-	1,870	80,111
Public Safety	161,908	-	-	676	162,584
Public Works	42,470	21,645	90,690	42,730	197,535
Debt Service					
Principal	7,500	-	-	15,114	22,614
Interest	1,635	-	-	3,750	5,385
Total Expenditures	<u>291,754</u>	<u>21,645</u>	<u>90,690</u>	<u>64,140</u>	<u>468,229</u>
Revenues under expenditures	<u>(11,975)</u>	<u>13,527</u>	<u>(44,380)</u>	<u>(27,799)</u>	<u>(70,627)</u>
Other Financing Sources (Uses):					
Transfers in	-	-	8,300	32,591	40,891
Transfers out	<u>(14,027)</u>	<u>(8,000)</u>	<u>-</u>	<u>(18,864)</u>	<u>(40,891)</u>
Total Other Financing Sources (Uses)	<u>(14,027)</u>	<u>(8,000)</u>	<u>8,300</u>	<u>13,727</u>	<u>-</u>
Net Change in Fund Balances	(26,002)	5,527	(36,080)	(14,072)	(70,627)
Fund Balances at beginning of year	<u>29,059</u>	<u>40,741</u>	<u>36,090</u>	<u>35,152</u>	<u>141,042</u>
Fund Balances at end of year	<u>\$ 3,057</u>	<u>\$ 46,268</u>	<u>\$ 10</u>	<u>\$ 21,080</u>	<u>\$ 70,415</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FEBRUARY 28, 2007**

Net change in fund balances - total governmental funds	\$(70,627)
Change in prepaid expenses recorded in the funds on the purchase method	2,968
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	170,708
Depreciation expense	(73,463)
Loss on disposal of assets	(882)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	462
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund.	
Principal payments on long term liabilities	22,614
Decrease in accrued interest	<u>406</u>
Change in net assets of governmental activities	<u><u>\$ 52,186</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF CARSONVILLE, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS FEBRUARY 28, 2007

	Water	Refuse	Sewage Collection System	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 43,423	\$ 2,557	\$(27,586)	\$ 18,394
Accounts and interest receivable	24,121	14,593	13,916	52,630
Due from other funds	-	-	440	440
Prepaid expenses	2,270	-	1,608	3,878
Total Current Assets	<u>69,814</u>	<u>17,150</u>	<u>(11,622)</u>	<u>75,342</u>
Restricted Assets:				
Cash and cash equivalents	119,602	-	114,773	234,375
Accounts receivable	27,215	-	-	27,215
Special assessments receivable	-	-	1,093,953	1,093,953
Total Restricted Assets	<u>146,817</u>	<u>-</u>	<u>1,208,726</u>	<u>1,355,543</u>
Capital Assets:				
Property, plant and equipment	2,193,889	-	2,925,551	5,119,440
Less - accumulated depreciation	<u>(215,342)</u>	<u>-</u>	<u>(482,449)</u>	<u>(697,791)</u>
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>1,978,547</u>	<u>-</u>	<u>2,443,102</u>	<u>4,421,649</u>
Other Assets:				
Tap-in fees receivable	<u>-</u>	<u>-</u>	<u>42,360</u>	<u>42,360</u>
Total Assets	<u>2,195,178</u>	<u>17,150</u>	<u>3,682,566</u>	<u>5,894,894</u>
LIABILITIES:				
Current Liabilities:				
Accounts payable	1,517	2,754	550	4,821
Liabilities payable from restricted assets - Accrued interest	15,757	-	12,722	28,479
Bonds/Notes payable (current portion)	46,500	-	19,000	65,500
Total Current Liabilities	<u>63,774</u>	<u>2,754</u>	<u>32,272</u>	<u>98,800</u>
Long-Term Liabilities (less current portions):				
Contracts payable - bonds (net of current portion)	1,616,032	-	-	1,616,032
Bonds payable (net of current portion)	52,000	-	1,100,011	1,152,011
Total Long-Term Liabilities	<u>1,668,032</u>	<u>-</u>	<u>1,100,011</u>	<u>2,768,043</u>
Total Liabilities	<u>1,731,806</u>	<u>2,754</u>	<u>1,132,283</u>	<u>2,866,843</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	310,515	-	2,443,102	2,753,617
Restricted for debt service	84,560	-	76,993	161,553
Unrestricted				
Undesignated	68,297	14,396	30,188	112,881
Total Net Assets	<u>\$ 463,372</u>	<u>\$ 14,396</u>	<u>\$ 2,550,283</u>	<u>\$ 3,028,051</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2007

	Water	Refuse	Sewage Collection System	Total
Operating Revenues:				
Charges for services	\$ 60,972	\$ 35,006	\$ 35,208	\$ 131,186
Penalties	280	-	-	280
Other	1,500	-	-	1,500
Total Operating Revenues	<u>62,752</u>	<u>35,006</u>	<u>35,208</u>	<u>132,966</u>
Operating Expenses:				
Salaries and fringes	14,942	-	10,368	25,310
Administrative expenses	5,219	-	2,943	8,162
Supplies and postage	5,488	-	274	5,762
Utilities	11,590	-	1,848	13,438
Repairs and maintenance	1,732	-	2,216	3,948
Equipment rent	3,474	-	2,817	6,291
Contracted services	-	32,496	285	32,781
Professional services	2,099	500	4,410	7,009
Miscellaneous	4,103	-	1,846	5,949
Insurance	2,609	-	1,585	4,194
Depreciation	37,575	-	61,059	98,634
Total Operating Expenses	<u>88,831</u>	<u>32,996</u>	<u>89,651</u>	<u>211,478</u>
Operating Income (Loss)	<u>(26,079)</u>	<u>2,010</u>	<u>(54,443)</u>	<u>(78,512)</u>
Non-Operating Revenues (Expenses):				
Enterprise improvements	67,427	-	-	67,427
Interest on special assessments	-	-	41,194	41,194
Interest earned	2,361	-	5,491	7,852
Interest expenses	<u>(35,367)</u>	<u>-</u>	<u>(57,256)</u>	<u>(92,623)</u>
Total Non-Operating Revenues (Expenses)	<u>34,421</u>	<u>-</u>	<u>(10,571)</u>	<u>23,850</u>
Net Income (Loss)	8,342	2,010	(65,014)	(54,662)
Net Assets at beginning of year	<u>455,030</u>	<u>12,386</u>	<u>2,615,297</u>	<u>3,082,713</u>
Net Assets at end of year	<u>\$ 463,372</u>	<u>\$ 14,396</u>	<u>\$ 2,550,283</u>	<u>\$ 3,028,051</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2007

	Water	Refuse	Sewage Collection System	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 62,609	\$ 34,303	\$ 34,848	\$ 131,760
Cash payments to suppliers	(38,318)	(32,947)	(19,457)	(90,722)
Cash payments to employees	(15,801)	-	(10,837)	(26,638)
Net Cash Provided by Operating Activities	<u>8,490</u>	<u>1,356</u>	<u>4,554</u>	<u>14,400</u>
Cash Flows From Capital and Related Financing Activities:				
Enterprise improvements	66,699	-	-	66,699
Principal payments on long term debt	(31,500)	-	(219,000)	(250,500)
Interest paid on long term debt	(33,080)	-	(60,127)	(93,207)
Special assessment principal and interest	-	-	89,293	89,293
Acquisition and construction of capital assets	(1,320)	-	(1,320)	(2,640)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>799</u>	<u>-</u>	<u>(191,154)</u>	<u>(190,355)</u>
Cash Flows From Investing Activities:				
Interest earned	<u>2,361</u>	<u>-</u>	<u>5,491</u>	<u>7,852</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	11,650	1,356	(181,109)	(168,103)
Cash and Cash Equivalents at Beginning of Year	<u>151,375</u>	<u>1,201</u>	<u>268,296</u>	<u>420,872</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 163,025</u></u>	<u><u>\$ 2,557</u></u>	<u><u>\$ 87,187</u></u>	<u><u>\$ 252,769</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating loss for the year	\$(26,079)	\$ 2,010	\$(54,443)	\$(78,512)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -				
Depreciation	37,575	-	61,059	98,634
Change in assets and liabilities:				
Receivable	(143)	(703)	(360)	(1,206)
Prepaid and deposits	(2,270)	-	(1,608)	(3,878)
Accounts payable/accrued expenses	(593)	49	(94)	(638)
Net Cash Provided By Operating Activities	<u><u>\$ 8,490</u></u>	<u><u>\$ 1,356</u></u>	<u><u>\$ 4,554</u></u>	<u><u>\$ 14,400</u></u>
Non-Cash Capital Financing Activities:				
Capital assets purchased through contracts payable	<u><u>\$ 391,616</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 391,616</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN

**STATEMENT OF FIDUCIARY NET ASSETS
TAX RECEIVING FIDUCIARY FUND
FEBRUARY 28, 2007**

ASSETS:

Cash and cash equivalents	\$ 8,121
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LIABILITIES:

Undistributed taxes	\$ 8,121
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

DESCRIPTION OF VILLAGE OPERATIONS - The Village of Carsonville is one of ten (10) Villages in Sanilac County and is located within the boundaries of Sanilac and Washington Townships. The Village operates under an elected Village Council which consists of a President and six Council members. The Village provides services to its residents in many areas, including law enforcement, fire protection, water, sewer and recreation.

FINANCIAL REPORTING ENTITY - In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 the reporting entity includes both the primary government and all of its "component units". The criteria established by GASB for determining the component units include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

On this basis, there are no other financial statements that should be included in the Village's financial statements.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied and due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. So agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues available if they are normally collected within 60 days after the year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on September 14, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Major Street – is a special revenue fund used to account for Act 51, money and other related revenues restricted for major street maintenance and improvements.

Municipal Street – is a special revenue fund used to account for taxes restricted for street maintenance and street lighting.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Village reports the following major proprietary funds:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Refuse Fund – is used to account for operations and activities of garbage collection and recycling for residential customer within the Village of Carsonville.

Sewage Collection System Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the government reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary (Agency) Fund – is used to account for property taxes collected by the Village for other funds of the Village. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The Village maintains a common checking account for its funds for operation. Each participating fund reports its share separately.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, savings, certificates of deposit with original maturities of three months or less from the date of acquisition.

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items -

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar -

The Village's property tax is levied each July 1 on the taxable value of property located in the Village as of the preceding December as adjusted by the March and July Board of Reviews. Taxes are collected through September 14.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to February 29, 2004.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives.

<u>Primary Government -</u>	<u>Years</u>
Building/improvements	5-50
Utility Systems	40-50
Road Systems/Other	
Infrastructure	20
Equipment	5-20

Long-Term Obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Compliance –

The Treasurer of the Village and the Village Council Finance Committee prepare from data submitted from department heads a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to February 28, the proposed budget is presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Council Resolution. After the budget is adopted, all amendments must be approved by the Village Council.

Budgets are legally adopted at the activity level for the General Fund and functional level for the Special Revenue Funds; however, for control purposes all the budgets are maintained at the account level. All unexpended appropriations lapse at fiscal year end.

Budgeted amounts are reported as originally adopted, or as amended, by the Village Council during the year. Individual amendments were not material in relation to the original appropriations.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended February 28, 2007, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated as follows:

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: - (cont'd):

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
<u>General Fund –</u>			
Legislative –			
Village Council	\$ 6,502	\$ 9,445	\$ 2,943
General Government –			
Village Hall	47,073	50,031	2,958
Public Safety –			
Fire Department	41,115	124,176	83,061
Public Works –			
Department of Public Works	30,647	42,407	11,760
Debt Service –			
Principal	7,000	7,500	500
Transfers out	2,075	14,027	11,952
<u>Special Revenue Funds –</u>			
Major Street Fund –			
Transfers out	4,500	8,000	3,500
Local Street Fund –			
Public Works	21,927	42,730	20,803
Fire Capital –			
Public Safety	100	676	576

NOTE 3 – DEPOSITS AND INVESTMENTS:

In accordance with Act 20 PA 1943 as amended by Act 196 PA 1997, the Village is authorized after Board resolution to invest surplus funds in the following types of investments:

- a) In bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

Custodial Credit Risk - Deposits - is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. Deposits of the Village are at federally insured banks in the State of Michigan in the name of the Village. The Village's investment policy does not address custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of February 28, 2007, the carrying amount of the Village's deposits is \$331,728, and the bank balance is \$347,818, of which \$131,294 is covered by Federal Depository Insurance, and the remaining balance is uninsured and uncollateralized.

Included in the Balance Sheet account cash and cash equivalents at February 28, 2007, is \$50 in petty cash.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result the Village evaluates each financial institution and assesses the level of risk. The Village uses only those financial institutions with an acceptable estimated risk level as depositories.

NOTE 4 - TAXES:

Assessed values are established annually, taxable by the respective Townships and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Carsonville for the fiscal year 2007 had a Taxable Equalized value of \$7,672,404. The millage rates levied by the Village were 10.3773 for the General Fund and 4.1508 for the Municipal Street Fund.

The County of Sanilac has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE BALANCES:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Balance Sheet reflect amounts due from or due to a particular fund by another fund of the Village. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. A summary of these balances by fund type at February 28, 2007, is as follows:

	<u>Due From</u>	<u>Due To</u>
<u>General Fund:</u>		
Municipal Street Fund	\$ -	\$ 9,208
Fire Capital Fund	-	208
Police Capital Fund	-	2,075
Municipal Service Building Fund	-	1,870
Sewer Collection System Fund	-	440
	<u>-</u>	<u>13,801</u>
<u>Special Revenue Funds:</u>		
Major Street Fund		
Municipal Street Fund	<u>12,221</u>	<u>-</u>
Municipal Street Fund		
General Fund	9,208	-
Major Street Fund	<u>-</u>	<u>12,221</u>
	<u>9,208</u>	<u>12,221</u>
Fire Capital Fund		
General Fund	208	-
Police Capital Fund		
General Fund	2,075	-
Municipal Service Building Fund		
General Fund	<u>1,870</u>	<u>-</u>
	<u>4,153</u>	<u>-</u>
<u>Enterprise Funds:</u>		
Sewage Construction Fund –		
General Fund	<u>440</u>	<u>-</u>
	<u>\$ 26,022</u>	<u>\$ 26,022</u>

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 5 – INTERFUND RECEIVABLE AND PAYABLE BALANCES – (cont'd):

Interfund transfers for the year ended February 28, 2007 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Municipal Street Fund	General Fund	\$ 8,300
Local Street Fund	Major Street Fund	8,000
Police Capital Fund	General Fund	2,075
Equipment Debt Fund	Police Capital Fund	2,081
	Fire Capital Fund	16,783
Municipal Services Building	General Fund	<u>3,652</u>
Total Transfers		<u>\$ 40,891</u>

NOTE 6 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended February 28, 2007 was as follows:

	<u>March 1, 2006</u>			<u>February 28, 2007</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 96,875	\$ -	\$ -	\$ 96,875
Capital assets, being depreciated:				
Buildings and improvements	428,079	-	-	428,079
Shared street improvements	226,145	90,075	-	316,220
Machinery and equipment	522,118	80,633	3,941	598,810
Total capital assets, being depreciated	<u>1,176,342</u>	<u>170,708</u>	<u>3,941</u>	<u>1,343,109</u>
Less accumulated depreciation for:				
Buildings and improvements	131,151	19,392	-	150,543
Shared street improvements	11,672	14,284	-	25,956
Machinery and equipment	234,993	39,787	3,059	271,721
Total accumulated depreciation	<u>377,816</u>	<u>73,463</u>	<u>3,059</u>	<u>448,220</u>
Total capital assets being depreciated, net	<u>798,526</u>	<u>97,245</u>	<u>882</u>	<u>894,889</u>
Governmental activities capital assets, net	<u>\$ 895,401</u>	<u>\$ 97,245</u>	<u>\$ 882</u>	<u>\$ 991,764</u>

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 6 - FIXED ASSETS – (cont'd):

	March 1, 2006		Deletions/ Adjustments	February 28, 2007
	<u>Balance</u>	<u>Additions</u>		<u>Balance</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 9,600	\$ -	\$ -	\$ 9,600
Construction in progress	<u>254,214</u>	<u>391,616</u>	<u>645,830</u>	<u>-</u>
Total capital assets, not being depreciated	<u>263,814</u>	<u>391,616</u>	<u>645,830</u>	<u>9,600</u>
Capital assets, being depreciated:				
Buildings and improvements	1,500	-	-	1,500
Machinery and equipment	34,584	2,640	-	37,224
Water system	1,540,591	645,830	-	2,186,421
Sewer system	<u>2,884,695</u>	<u>-</u>	<u>-</u>	<u>2,884,695</u>
Total capital assets being depreciated	<u>4,461,370</u>	<u>648,470</u>	<u>-</u>	<u>5,109,840</u>
Less accumulated depreciation for:				
Buildings and improvements	1,050	30	-	1,080
Machinery and equipment	24,855	3,373	-	28,228
Water systems	173,669	37,435	-	211,104
Sewer systems	<u>399,583</u>	<u>57,796</u>	<u>-</u>	<u>457,379</u>
Total accumulated depreciation	<u>599,157</u>	<u>98,634</u>	<u>-</u>	<u>697,791</u>
Total capital assets being depreciated, net	<u>3,862,213</u>	<u>549,836</u>	<u>-</u>	<u>4,412,049</u>
Business activities capital assets, net	<u>\$ 4,126,027</u>	<u>\$ 941,452</u>	<u>\$ 645,830</u>	<u>\$ 4,421,649</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 11,354
Public Safety	41,701
Public Works	<u>20,408</u>
Total depreciation expense-governmental activities	<u>\$ 73,463</u>
Business-type activities:	
Sewer	\$ 61,059
Water	<u>37,575</u>
Total depreciation expense-business-type activities	<u>\$ 98,634</u>

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 7 - LONG-TERM DEBT:

The following is a summary of the changes in long-term debt of the Village for the fiscal year ended February 28, 2007:

	Balance March 1, 2006	Additions	Reductions	Balance February 28, 2007	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Funds -					
GO Capital Improvement Bonds	\$ 29,000	\$ -	\$ 7,500	\$ 21,500	\$ 8,000
Commercial Loan on Police Car	2,021	-	2,021	-	-
Fire truck loan	<u>87,589</u>	<u>-</u>	<u>13,093</u>	<u>74,496</u>	<u>13,569</u>
Total Governmental Funds	<u>118,610</u>	<u>-</u>	<u>22,614</u>	<u>95,996</u>	<u>21,569</u>
<u>Business-type Activities:</u>					
1998 Sanitary sewerage system bond	1,338,011	-	219,000	1,119,011	19,000
2005 G.O. Capital Improvement Bonds	65,000	-	6,500	58,500	6,500
Contracts Payable -					
2005 Water drinking system bond	249,416	391,616	-	641,032	15,000
2004 Water drinking system bond	<u>1,040,000</u>	<u>-</u>	<u>25,000</u>	<u>1,015,000</u>	<u>25,000</u>
Total Business-Type Activities	<u>2,692,427</u>	<u>391,616</u>	<u>250,500</u>	<u>2,833,543</u>	<u>65,500</u>
	<u>\$ 2,811,037</u>	<u>\$ 391,616</u>	<u>\$ 273,114</u>	<u>\$ 2,929,539</u>	<u>\$ 87,069</u>

Significant details regarding outstanding long-term debt are presented as follows:

Governmental Activities –

The Village issued \$39,500 in General Obligation Capital Improvement Bonds for the purpose of improvements to the Village Hall. The bonds dated February 26, 2004, are due in semi-annual installments increasing from \$3,500 to \$4,500 through March 1, 2009, with interest rate fixed at 6.00 percent, payable semi-annually. \$ 21,500

\$100,000 Promissory note for fire truck purchase dated September 1, 2004 payable in semi-annual installments increasing from \$6,432 to \$8,493 through September 1, 2011, with interest rate fixed at 4.40% payable semi-annually. 74,496

Business –Type Activities -

\$1,498,000 Rural Development Authority Sanitary Sewerage System Bonds, dated June 18, 1998, due in annual installments increasing from \$17,000 to \$75,000 through June 1, 2038; with interest of 4.5 percent payable semi-annually. \$ 1,119,011

VILLAGE OF CARSONVILLE, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 7 – LONG TERM DEBT – (cont'd):

\$1,065,000 Drinking Water Revolving loan, dated June 24, 2004, due in annual payments increasing from \$25,000 to \$50,000 through April 1, 2034; with interest of 2.125% payable semi-annually. \$ 1,015,000

\$690,000 Drinking Water Revolving loan, dated September 22, 2005, due in annual installments increasing from \$15,000 to \$30,000 through April 1, 2036; with interest of 2.125% payable semi-annually. 641,032

\$65,000 G.O. Capital Improvement Bonds for water system improvements, due in semi-annual installments of \$3,250 through October 1, 2015; with interest of 4.5% payable semi-annually. 58,500

The annual requirements to amortize debt outstanding at February 28, 2007:

Governmental Activities:

<u>Year</u>	<u>G.O. Capital Improvement Bonds</u>		<u>2004 Promissory Note Fire Truck</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 8,000	\$ 1,170	\$ 13,569	\$ 3,213
2009	9,000	675	14,181	2,602
2010	4,500	135	14,835	1,947
2011	-	-	15,512	1,270
2012	-	-	16,399	563
	<u>\$ 21,500</u>	<u>\$ 1,980</u>	<u>\$ 74,496</u>	<u>\$ 9,595</u>

Business-Type Activities:

<u>Year</u>	<u>RDA Sewer Bonds</u>		<u>DWR Contracts Payable</u>		<u>G.O. Capital Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 19,000	\$ 49,928	\$ 40,000	\$ 34,765	\$ 6,500	\$ 2,559
2009	20,000	49,050	40,000	33,915	6,500	2,267
2010	21,000	48,128	45,000	33,011	6,500	1,974
2011	22,000	47,161	45,000	32,256	6,500	1,682
2012	23,000	46,148	45,000	31,100	6,500	1,389
2013-2017	130,000	213,977	245,000	140,727	26,000	2,632
2018-2022	162,000	181,262	275,000	112,668	-	-
2023-2027	202,000	140,493	305,000	82,187	-	-
2028-2032	252,000	89,687	340,000	47,751	-	-
2033-2037	<u>268,011</u>	<u>27,317</u>	<u>276,032</u>	<u>12,154</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,119,011</u>	<u>\$ 893,151</u>	<u>\$ 1,656,032</u>	<u>\$ 560,534</u>	<u>\$ 58,500</u>	<u>\$ 12,503</u>

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF CARSONVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 79,993	\$ 79,993	\$ 81,255	\$ 1,262
Licenses and permits	1,830	1,830	1,532	(298)
Intergovernmental -				
Federal and State	63,623	63,623	145,677	82,054
Charges for services	30,813	30,813	30,864	51
Fines and forfeits	100	100	-	(100)
Interest and rents	14,197	14,197	19,480	5,283
Other	3,260	3,260	971	(2,289)
	<u>193,816</u>	<u>193,816</u>	<u>279,779</u>	<u>85,963</u>
Expenditures:				
Legislative -				
Village Council	<u>6,502</u>	<u>6,502</u>	<u>9,445</u>	<u>(2,943)</u>
General Government -				
Clerk and Treasurer	20,000	20,000	18,765	1,235
Village Hall	<u>47,073</u>	<u>47,073</u>	<u>50,031</u>	<u>(2,958)</u>
	<u>67,073</u>	<u>67,073</u>	<u>68,796</u>	<u>(1,723)</u>
Public Safety -				
Police Protection	39,329	39,329	37,732	1,597
Fire Department	<u>41,115</u>	<u>41,115</u>	<u>124,176</u>	<u>(83,061)</u>
	<u>80,444</u>	<u>80,444</u>	<u>161,908</u>	<u>(81,464)</u>
Public Works -				
Department of Public Works	30,647	30,647	42,407	(11,760)
Street Lights	<u>500</u>	<u>500</u>	<u>63</u>	<u>437</u>
	<u>31,147</u>	<u>31,147</u>	<u>42,470</u>	<u>(11,323)</u>
Debt Service -				
Principal	7,000	7,000	7,500	(500)
Interest	<u>1,650</u>	<u>1,650</u>	<u>1,635</u>	<u>15</u>
	<u>8,650</u>	<u>8,650</u>	<u>9,135</u>	<u>(485)</u>
Total Expenditures	<u>193,816</u>	<u>193,816</u>	<u>291,754</u>	<u>(97,938)</u>
Revenues under expenditures	-	-	(11,975)	(11,975)
Other Financing Uses:				
Transfers out	<u>(2,075)</u>	<u>(2,075)</u>	<u>(14,027)</u>	<u>(11,952)</u>
Net Change in Fund Balance	(2,075)	(2,075)	(26,002)	(23,927)
Fund Balance at beginning of year	<u>29,059</u>	<u>29,059</u>	<u>29,059</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 26,984</u>	<u>\$ 26,984</u>	<u>\$ 3,057</u>	<u>\$(23,927)</u>

VILLAGE OF CARSONVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL MAJOR STREET FUND FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Intergovernmental -				
Federal/State	\$ 34,520	\$ 34,520	\$ 34,931	\$ 411
Interest	590	590	241	(349)
	<u>35,110</u>	<u>35,110</u>	<u>35,172</u>	<u>62</u>
Expenditures:				
Public Works -				
Administration				
Salaries and wages	3,300	3,300	3,238	62
Professional fees	250	250	-	250
Contingency	13,523	13,523	-	13,523
	<u>17,073</u>	<u>17,073</u>	<u>3,238</u>	<u>13,835</u>
Maintenance				
Salaries and wages	5,856	5,856	4,736	1,120
Supplies	400	400	56	344
Insurance and bonds	1,508	1,508	1,480	28
Contracted service	2,144	2,144	4,647	(2,503)
Equipment rent	1,407	1,407	2,875	(1,468)
	<u>11,315</u>	<u>11,315</u>	<u>13,794</u>	<u>(2,479)</u>
Winter Maintenance				
Salaries and wages	2,000	2,000	2,776	(776)
Supplies	400	400	1,837	(1,437)
Contracted service	500	500	-	500
Equipment rent	592	592	-	592
	<u>3,492</u>	<u>3,492</u>	<u>4,613</u>	<u>(1,121)</u>
Total Expenditures	<u>31,880</u>	<u>31,880</u>	<u>21,645</u>	<u>10,235</u>
Revenues over expenditures	3,230	3,230	13,527	10,297
Other Financing Uses:				
Transfers out -				
Local Street Fund	(4,500)	(4,500)	(8,000)	(3,500)
Net Change in Fund Balance	(1,270)	(1,270)	5,527	6,797
Fund Balance at beginning of year	<u>40,741</u>	<u>40,741</u>	<u>40,741</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 39,471</u>	<u>\$ 39,471</u>	<u>\$ 46,268</u>	<u>\$ 6,797</u>

VILLAGE OF CARSONVILLE, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MUNICIPAL STREET FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 31,300	\$ 31,300	\$ 31,845	\$ 545
Intergovernmental -				
Local	63,630	63,630	13,951	(49,679)
Interest	1,000	1,000	514	(486)
	<u>95,930</u>	<u>95,930</u>	<u>46,310</u>	<u>(49,620)</u>
Expenditures:				
Public Works -				
Administration	3,000	3,000	9,279	(6,279)
Maintenance	128,930	128,930	81,411	47,519
	<u>131,930</u>	<u>131,930</u>	<u>90,690</u>	<u>41,240</u>
Revenues under expenditures	(36,000)	(36,000)	(44,380)	(8,380)
Other Financing Sources:				
Transfers in -	<u>-</u>	<u>-</u>	<u>8,300</u>	<u>8,300</u>
Net Change in fund balance	(36,000)	(36,000)	(36,080)	(80)
Fund Balance at beginning of year	<u>36,090</u>	<u>36,090</u>	<u>36,090</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 90</u>	<u>\$ 90</u>	<u>\$ 10</u>	<u>\$(80)</u>

SUPPLEMENTARY INFORMATION

VILLAGE OF CARSONVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET FEBRUARY 28, 2007

	Special Revenue Funds				
	Local Street	Fire Capital	DPW Capital	Police Capital	Municipal Service Building
ASSETS					
Cash and cash equivalents	\$(1,372)	\$ 20,074	\$ 43	\$(2,073)	\$(1,795)
Due from other governmental units - Federal/State	2,125	-	-	-	-
Due from other funds	-	208	-	2,075	1,870
Total Assets	<u>\$ 753</u>	<u>\$ 20,282</u>	<u>\$ 43</u>	<u>\$ 2</u>	<u>\$ 75</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 75
Fund Balance (Deficit):					
Unreserved - Undesignated	<u>753</u>	<u>20,282</u>	<u>43</u>	<u>2</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 753</u>	<u>\$ 20,282</u>	<u>\$ 43</u>	<u>\$ 2</u>	<u>\$ 75</u>

Debt Service Fund		
Equipment Note		Total
\$ -	\$	14,877
-		2,125
-		4,153
<u>\$ -</u>		<u>21,155</u>
\$ -	\$	75
<u>-</u>		<u>21,080</u>
<u>\$ -</u>	<u>\$</u>	<u>21,155</u>

VILLAGE OF CARSONVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED FEBRUARY 28, 2007

	Special Revenue Funds				
	Local Street	Fire Capital	DPW Capital	Police Capital	Municipal Service Building
Revenues:					
Intergovernmental-					
State	\$ 11,782	\$ -	\$ -	\$ -	\$ -
Local	-	24,000	-	-	-
Interest	250	305	-	4	-
Total Revenues	<u>12,032</u>	<u>24,305</u>	<u>-</u>	<u>4</u>	<u>-</u>
Expenditures:					
Current -					
General Government	-	-	-	-	1,870
Public Safety	-	676	-	-	-
Public Works	42,730	-	-	-	-
Debt Service -					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>42,730</u>	<u>676</u>	<u>-</u>	<u>-</u>	<u>1,870</u>
Revenues over (under) expenditures	(30,698)	23,629	-	4	(1,870)
Other Financing Sources (Uses):					
Transfers in	8,000	-	-	2,075	3,652
Transfers out	-	(16,783)	-	(2,081)	-
Total Other Financing Sources (Uses)	<u>8,000</u>	<u>(16,783)</u>	<u>-</u>	<u>(6)</u>	<u>3,652</u>
Net Change in Fund Balance	(22,698)	6,846	-	(2)	1,782
Fund Balances (Deficit) at beginning of year	<u>23,451</u>	<u>13,436</u>	<u>43</u>	<u>4</u>	<u>(1,782)</u>
Fund Balances (Deficit) at end of year	<u>\$ 753</u>	<u>\$ 20,282</u>	<u>\$ 43</u>	<u>\$ 2</u>	<u>\$ -</u>

Debt Service Fund	
Equipment Note	Total
\$ -	\$ 11,782
-	24,000
-	559
-	36,341
-	1,870
-	676
-	42,730
15,114	15,114
3,750	3,750
18,864	64,140
(18,864)	(27,799)
18,864	32,591
-	(18,864)
18,864	13,727
-	(14,072)
-	35,152
\$ -	\$ 21,080

VILLAGE OF CARSONVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2007

	Final Budget	Actual	Variance Positive (Negative)
LOCAL STREET FUND			
Revenues:			
Intergovernmental -			
State	\$ 12,200	\$ 11,782	\$(418)
Interest	227	250	23
	<u>12,427</u>	<u>12,032</u>	<u>(395)</u>
Expenditures:			
Public Works -			
Administration -			
Salaries and wages	1,000	813	187
Professional fees	250	365	(115)
Contingency	4,396	-	4,396
	<u>5,646</u>	<u>1,178</u>	<u>4,468</u>
Maintenance -			
Salaries and wages	6,932	3,596	3,336
Supplies	2,000	926	1,074
Insurance and bonds	1,392	1,480	(88)
Contracted service	1,500	30,631	(29,131)
Equipment rent	981	4,147	(3,166)
	<u>12,805</u>	<u>40,780</u>	<u>(27,975)</u>
Winter Maintenance -			
Salaries and wages	2,500	772	1,728
Supplies	500	-	500
Equipment rent	476	-	476
	<u>3,476</u>	<u>772</u>	<u>2,704</u>
Total Expenditures	<u>21,927</u>	<u>42,730</u>	<u>(20,803)</u>
Revenues under expenditures	(9,500)	(30,698)	(21,198)
Other Financing Sources:			
Transfer in -	<u>4,500</u>	<u>8,000</u>	<u>3,500</u>
Net Change in Fund Balance	(5,000)	(22,698)	(17,698)
Fund Balance at beginning of year	<u>23,451</u>	<u>23,451</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 18,451</u>	<u>\$ 753</u>	<u>\$(17,698)</u>

Continued

VILLAGE OF CARSONVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2007

	Final Budget	Actual	Variance Positive (Negative)
FIRE CAPITAL			
Revenues:			
Intergovernmental - Local	\$ 24,000	\$ 24,000	\$ -
Interest	300	305	5
	<u>24,300</u>	<u>24,305</u>	<u>5</u>
Expenditures:			
Public Safety	<u>100</u>	<u>676</u>	<u>(576)</u>
Revenues over expenditures	24,200	23,629	(571)
Other Financing Uses:			
Transfers out	<u>(16,800)</u>	<u>(16,783)</u>	<u>17</u>
Net Change in Fund Balance	7,400	6,846	(554)
Fund Balance at beginning of year	<u>13,436</u>	<u>13,436</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 20,836</u>	<u>\$ 20,282</u>	<u>\$(554)</u>

DPW CAPITAL

Other Financing Sources:			
Transfer in	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$(1,000)</u>
Net Change in Fund Balance	1,000	-	(1,000)
Fund Balance at beginning of year	<u>43</u>	<u>43</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,043</u>	<u>\$ 43</u>	<u>\$(1,000)</u>

Continued

VILLAGE OF CARSONVILLE, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED FEBRUARY 28, 2007

	Final Budget	Actual	Variance Positive (Negative)
POLICE CAPITAL			
Revenues:			
Interest	\$ 4	\$ 4	\$ -
Revenues over expenditures	4	4	-
Other Financing Sources (Uses):			
Transfer in	2,075	2,075	-
Transfer out	(2,075)	(2,081)	(6)
	-	(6)	(6)
Net Change in Fund Balance	4	(2)	(6)
Fund Balance at beginning of year	4	4	-
Fund Balance at end of year	\$ 8	\$ 2	\$(6)

MUNICIPAL SERVICE BUILDING			
Revenues:			
Rental collections	\$ 5,000	\$ -	\$(5,000)
Expenditures:			
General Government	3,057	1,870	1,187
Revenues over (under) expenditures	1,943	(1,870)	(3,813)
Other Financing Sources:			
Transfer In	-	3,652	3,652
Revenues over (under) expenditures and other sources	1,943	1,782	(161)
Fund Deficit at beginning of year	(1,782)	(1,782)	-
Fund Balance (Deficit) at end of year	\$ 161	\$ -	\$(161)

Concluded

VILLAGE OF CARSONVILLE, MICHIGAN

**BALANCE SHEET
TAX RECEIVING AGENCY FUND
FEBRUARY 28, 2007**

ASSETS	
Cash	<u><u>\$ 8,121</u></u>
LIABILITIES	
Undistributed taxes	<u><u>\$ 8,121</u></u>

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<u>Balance March 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance February 28, 2007</u>
TAX COLLECTION FUND				
Assets:				
Cash and Cash equivalents	<u><u>\$ 277</u></u>	<u><u>\$ 154,442</u></u>	<u><u>\$ 146,598</u></u>	<u><u>\$ 8,121</u></u>
Liabilities:				
Undistributed taxes	<u><u>\$ 277</u></u>	<u><u>\$ 154,442</u></u>	<u><u>\$ 146,598</u></u>	<u><u>\$ 8,121</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members
of the Village Council
Village of Carsonville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Carsonville, Michigan as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Carsonville, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies described below to be significant deficiencies in internal control over financial reporting:

Bank Reconciliation of Common Cash

The Village of Carsonville maintains a common checking account that represents the cash balance of several funds. This checking account was not reconciled to the Treasurer's control sheet on a timely basis and was also not reconciled to the general ledger for the entire year.

As a result, errors were detected in the general ledger balances and correcting entries were proposed. Timely reconciliation of the cash accounts is one of the most important aspects of the internal control environment necessary to detect errors in the financial reports and to safeguard the assets of the Village.

We recommend that the common checking account be reconciled to the general ledger cash balances on a monthly basis.

Proposed Audit Adjusting Entries

Several material adjusting entries to the financial records of the Village were proposed by our firm. These entries were reviewed, accepted and recorded by the Village.

It is our belief that several of the entries could have been made by the Village. However, we believe that there were circumstances requiring journal entries that were not detected during the year that are material to the financial statements.

As a result of both conditions described in the previous paragraph, the entries were not recorded, thus the financial information was not reported correctly in a timely manner, putting the Village at risk that errors could occur that would not be prevented or detected.

We recommend that a procedure be implemented to assure that all journal entries are recorded on a timely basis.

Annual Financial Report

The Village is responsible for the Annual Financial Report. Statement on Auditing Standard No. 112 "Communicating Internal Control Related Matters Identified in an Audit" specifies that if an entity does not have individuals on staff that can draft or review the financial statements to assure that they are accurate and reported in accordance with Generally Accepted Accounting Principles then the entity has a significant deficiency in internal control over reporting.

The Village has individuals on staff to review that the annual financial report is accurate and that the financial information reflects the recording of proposed journal entries, however, the staff may not be able to determine that the annual financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

As a result, reporting errors or omission could occur in the preparation of the Annual Financial Report that would be a departure from GAAP and the Village would not be in a position to detect the errors or omissions.

We recommend that the Village continue to review the annual financial statements and to continue developing an understanding of reporting requirements and note disclosure.

Control over Utility Billing and Receivables

At the present time, the same individual mails out bills, collects cash receipts, and credits customer accounts.

In order to maintain an internal control system for utility billing, it is important to have a division of duties between the billing, collecting and recording processes.

Because of the limited number of personnel available, we understand the difficulty of separating the accounting functions, however, we recommend that the billing and receipting functions be separated if possible and that adjustments to the receivable accounts be approved by someone outside of the receipting function.

Controls over Special Assessments

At the present time the Village has reported in the general ledger a special assessments receivable account balance for the assessments. This is an excellent control procedure for the total of the individual assessment amounts outstanding.

However, during the audit, it was difficult to determine the individual balances that supported the special assessment receivable per the general ledger. The reasons for the difficulty were the individual ledger cards were not always current due to irregular payments and changes in property owners.

We recommend that the individual ledger cards be maintained by lot number rather than owner or renter's name and payments be posted in the month received.

Controls over Journal Entries

At the present time, journal entries are prepared by one individual and are not required to be formally approved by a second individual and are not numbered and maintained for control purposes.

Not having a procedure requiring that journal entries be formally approved and the sequence controlled allows for the possibility of inaccurate financial reporting.

As with the division of accounting functions duties between individuals in a small office environment, it is difficult to have someone available with adequate accounting knowledge to review journal entries prepared.

We recommend that journal entries be approved by an individual other than the preparer and supporting documentation be attached to all entries.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Carsonville's internal control.

Our consideration of the internal control over financial reporting was for the limited purposed described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the first three significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Carsonville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village of Carsonville, Michigan in a separate letter dated August 28, 2007.

This report is intended solely for the information and use of management, and the Village Council of Carsonville, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beausaint Whipple".

Certified Public Accountants

August 28, 2007



MANAGEMENT LETTER

To the President and Members
of the Village Council
Village of Carsonville
Carsonville, Michigan

We have recently completed our audit of the financial statements of the Village of Carsonville for the year ended February 28, 2007. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Village's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the *Report on Internal Control over Financial Reporting* these observations were not considered significant deficiencies in relation to the financial statements of the Village.

Controls over the Budgeting Process.

As noted in the audited financial statements, some of the expenditures of the Village exceed the amount appropriated.

Michigan Public Act 621 of 1978 Sec. 18, as amended, provides that a Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

The Village has established procedures to detect such violations; however, there were instances where overages occurred.

Budget amendments should be made to cover any expenditures in excess of the amounts appropriated with all budget amendments approved by Village Council prior to the end of the fiscal year.

The amounts owed between funds should be repaid or forgiven.

We noted several funds with balances in the due to/due from accounts which represent amounts owed between the funds from previous years.

The transactions that these balances originated from were not intended to create long-term advances but rather only short term borrowing. Also, because the Village relies on internal reports detailing the amount of cash on hand in each fund in order to make informed decisions, we recommend that the amounts owed between the funds either be repaid or forgiven.

Source documents should be attached to copies of the receipts and invoices should be defaced.

During the audit we noted that the information backing up a receipt (check warrant or stub or bill being paid) was not attached to the receipt. To assist in the tracking of support we would recommend that the original source documentation be attached to a copy of the receipt.

We also noted that invoices are not always defaced at the time of payment. Defacing invoices at the time of payment prevents an invoice from mistakenly being paid twice. We would recommend that copies of the check be attached to the invoice to deface the invoice and assist in organizing the support information for the checks.

Controls over Allocation of Administrative Expenditures.

When preparing an allocation plan for central service costs, two specific items have to be identified – the cost that is central service in nature and the basis to be used to allocate the central service cost.

We noted that the Village allocates administrative expenditures; however, we believe that the method of allocation should be reviewed to determine that all the administrative costs that are central service in nature are included in the plan and the basis for allocation is readily available and verifiable.

If this cost allocation criteria is followed, the Village will have support that the costs charged to the various funds are reasonable and equitable.

We also noted that the administrative costs charged to the street funds exceeded the amount allowed according to the State Act 51 (10% of the Act 51 dollars received). We recommend that the administrative costs charged to the major and local street funds comply with the requirements of the Act 51 report.

These observations were considered in determining the nature, timing and extent of the audit tests applied on our audit of the February 28, 2007 financial statements. We have not considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended for the information of the management and members of the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation of the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvoir Whipple".

August 28, 2007